

Financial Management

MANAGEMENT CONTROL (MC) PROGRAM

BY ORDER OF THE DEPUTY COMMANDER

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This instruction prescribes the policies for establishing, executing, and reporting on United States Transportation Command's (USTRANSCOM) Management Control (MC) program as required by Department of Defense (DOD) Directive 5010.38. It is applicable to all USTRANSCOM directorates and the Command Support Group (CSG). Send comments and suggested improvements to this instruction on Air Force (AF) Form 847, Recommendation for Change of Publication, to USTRANSCOM/TCJ8-A. The use of a name or mark of any specific manufacturer, commercial product, commodity, or service in this publication does not imply endorsement by USTRANSCOM.

SUMMARY OF REVISIONS

Administrative revisions include: Changing all reference of direct reporting elements (DREs) to CSG; accounting for the name change of Military Traffic Management Command (MTMC) to (Military) Surface Deployment and Distribution Command (SDDC); identifying USTRANSCOM/TCJ8-A as the OPR of this program; and replacing Commander in Chief (CINC) with Commander, USTRANSCOM. In addition, this revision adds the definition of Statement of Assurance to Attachment 1. Note: Since this directive has been revised in its entirety, asterisks will not be used to identify revised material.

1. References, Abbreviations, Acronyms, and Terms. References, related publications, abbreviations, acronyms, and terms used in this instruction are listed in Attachment 1.

2. Purpose. The overall purpose of the program is to comply with the Federal Manager's Financial Integrity Act (FMFIA) of 1982 (Public Law 97-255). Specifically, the command will:

2.1. Establish a continuous process to evaluate and improve management controls and accounting systems.

2.2. Safeguard against waste, loss, unauthorized use, or misappropriation of resources (funds, property, and other assets). The MC program should be integrated into daily operating and management practices and utilize existing evaluative processes. Obligations and cost will comply with applicable law. Functional offices of primary responsibility (OPRs) may use Alternative Management Control Reviews (AMCRs); e.g., financial system reviews, inspections, investigations, and internal reviews to ensure compliance with approved directives.

2.3. Submit the Commander's annual Statement of Assurance to the Secretary of Defense by 15 November each year.

2.4. Proper recording and accounting of revenues and expenditures applicable to DOD operations, including nonappropriated fund activities, to permit the preparation of reliable financial and statistical reports.

3. Scope. The USTRANSCOM MC program is limited to directorates, CSG, and Defense Courier Service (DCS). USTRANSCOM Transportation Component Commands (TCCs): Air Mobility Command (AMC), Military Sealift Command (MSC), (Military) Surface Deployment and Distribution Command (SDDC) each respond to their respective Service management control program; however, to ensure the USTRANSCOM report addresses all Defense Transportation System (DTS)-related issues, the TCCs submit a copy of their Statement of Assurance to USTRANSCOM for information/review and possible inclusion of any DTS-related issues in the USTRANSCOM Statement of Assurance.

4. Limitations. USTRANSCOM's program is limited to only those resources managed by USTRANSCOM. Resources used by USTRANSCOM personnel, who are managed by a TCC, are evaluated under that TCC's Service MC Program.

5. Responsibilities:

5.1. The Director of Program Analysis and Financial Management (TCJ8) is the senior management official responsible for establishing and implementing USTRANSCOM's MC program. USTRANSCOM/TCJ8 Accounting Division (TCJ8-A) functions as command OPR and focal point for administering this program.

5.1.1. USTRANSCOM/TCJ8-A monitors execution of the program and establishes follow-up systems to ensure acceptable performance and prompt correction of all material weaknesses.

5.1.2. USTRANSCOM/TCJ8-A prepares the annual update to the USTRANSCOM Management Control Plan according to the guidelines of the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)).

5.1.3. By 15 November of each year, USTRANSCOM/TCJ8-A will provide to the

Secretary of Defense, USTRANSCOM's Statement of Assurance called for by the FMFIA of 1982 (Public Law 97-255). A copy of the statement and accompanying reports shall be furnished to the OUSD(C).

5.2. USTRANSCOM functional directors and CSG chiefs, through their MC program OPRs and focal points, are responsible for evaluating management controls to minimize the risk of waste, loss, unauthorized use, or misappropriation of the resources they manage and timely correction of identified weaknesses.

5.2.1. Directors and CSG Chiefs will ensure general and specific program standards are met (Attachment 2).

5.2.2. Directors and CSG Chiefs will emphasize compliance, prevention, and correction of waste, fraud, and mismanagement of resources within their organization.

5.2.3. Directors and CSG Chiefs will ensure accountability for success or failure of directorate/CSG MC practices is reflected in performance evaluations of civilian and military managers assigned significant MC responsibilities.

5.2.4. Directors and CSG Chiefs will provide input as requested by USTRANSCOM/TCJ8-A for the annual Statement of Assurance and to update the Management Control Plan.

6. Procedures:

6.1. USTRANSCOM Directors and CSG Chiefs shall develop an MC program to include:

6.1.1. Assign a focal point for program administration and notify, in writing, USTRANSCOM/TCJ8-A of appointment.

6.1.2. Ensure that management controls are integrated into daily operating and management practices.

6.1.3. Organize the MC process and segment the directorate or CSG into assessable units (functional activities).

6.1.4. Take applicable management actions, to include conducting MC or alternate MC reviews as necessary. Managers are encouraged to utilize the following sources of information for alternative management control reviews: management and oversight reviews; computer security reviews; Service audit agency, DOD Inspector General (DOD IG), and General Accounting Office (GAO) audits, inspections, or investigations; financial system reviews; program evaluations; self-inspection program; quality assessments; and management knowledge gained from daily operations.

6.1.5. Schedule and take corrective action.

6.1.6. Provide for quality control.

6.1.7. Provide input to MC reporting requirements.

7. Standards for Management Control. Specific items listed in Attachment 2.

8. Guidance in Applying the Definition of Material Weakness. Specific items listed in Attachment 3.

9. Management Control Reporting Categories. Specific management control reporting categories are listed in Attachment 4.

//SIGNED//
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Director, Program Analysis and
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4 Attachments

1. Glossary of References, Abbreviations, Acronyms, and Terms
2. Standards for Management Control
3. Guidance in Applying the Definition of Material Weakness
4. Management Control Reporting Categories

GLOSSARY OF REFERENCES, ABBREVIATIONS, ACRONYMS, AND TERMS

Section A--References

Federal Manager's Financial Integrity Act of 1982 (Public Law 97-255)
Office of Management and Budget (OMB) Circular A-123, Management Accountability and Control
DOD Directive 5010.38, Management Control (MC) Program
DOD Directive 5010.40, Management Control (MC) Program Procedures

Section B--Abbreviations and Acronyms

AMCR	Alternative Management Control Review
CSG	Command Support Group
DOD	Department of Defense
FMFIA	Federal Manager's Financial Integrity Act
GAO	General Accounting Office
IG	Inspector General
MC	Management Control
MCP	Management Control Plan
MCR	Management Control Review
OMB	Office of Management and Budget
OPR	Office of Primary Responsibility
OUSD(C)	Office of the Secretary of Defense Comptroller
USTRANSCOM	United States Transportation Command

Section C--Terms

1. Assessable Unit—The basic segment for which management controls are evaluated. An assessable unit may be an organization, program, function, system, or any other applicable division of activities capable of being evaluated by management control assessment procedures. An assessable unit shall be of an appropriate size to assure that a reasonable span of management control will allow for adequate control analysis.

2. Control Objective. A specific aim, goal, condition, or level of control established by a manager for an assessable unit that provides reasonable assurance that the resources allocated to that activity are safeguarded or protected adequately against waste, fraud, or mismanagement. Control objectives are not absolutes. Limiting factors such as budget constraints, statutory and regulatory restrictions, staff limitations, and cost benefits of each control technique are to be considered in determining desired control objectives.

3. Control Technique. Any form of organization, procedure, or document flow that is being relied on to accomplish a control objective and to help safeguard or protect an activity from waste, fraud, or mismanagement.

4. Documentation. Documentation for MC systems includes the following two types of written materials:

4.1. Review Documentation. Shows the type and scope of review, the responsible official, the pertinent dates and facts, the key findings, and the recommended corrective actions. Documentation is adequate if the information is understandable to a reasonably knowledgeable reviewer.

4.2. System Documentation. Includes policies and procedures, organizational charts, manuals, flow charts, and related written and graphic materials necessary to describe organizational structure, operating procedures, and administrative practices; and to communicate responsibilities and authorities for accomplishing programs and activities. Documentation of MC activities is required to the extent needed by management to control their operations effectively.

5. Event Cycle. A series of steps taken to get something done. Any program or function performed within an organization contains such processes used to start and perform related activities, create necessary documentation, and gather and report related data.

6. General Control Environment. The environment in which an event cycle operates, including management attitude; organization structure; personnel competence; delegation of authority and responsibility; policies, procedures, budgeting, and reporting practices; and organizational checks and balances.

7. MC Guidelines. OMB Guidelines for the Evaluation and Improvement of the Reporting on Management Control Systems in the Federal Government presents a suggested approach that may be adapted to meet DOD Component needs. Any such adaptation should remain in compliance with OMB Circular A-123 and include testing of controls and documentation.

8. MC Standards. The GAO Standards for Internal Control in the Federal Government issued by the Comptroller General for use in establishing and maintaining MC systems (see Attachment 2).

9. MC System. The sum of the DOD Components' methods and measures used to achieve FMFIA and MC objectives. It is not a separate system, but an integral part of the systems used to operate programs and functions.

10. Management Control—A system of guidance, instructions, regulations, procedures, rules or other organization instructions intended to determine the methods to be employed to carry out mission or operational actions or objectives, and ensure that programs achieve intended results. The term "management control" applies to all activities.

11. Management Control Evaluation—A review performed of an assessable unit to determine whether management control techniques exist and are effectively implemented

to accomplish administrative, operational, and mission objectives. MC evaluations are of the following two types:

11.1. Alternative MC Review (AMCR). A process to determine that the control techniques are operating properly. This type of process uses computer security reviews; financial systems reviews; IG, GAO, or DOD Component audits, inspections, or investigations; internal review studies; and management and/or consulting reviews. Such alternative reviews must determine overall compliance, and include testing of controls and documentation.

11.2. MC Review (MCR). A detailed examination of a system of management controls in an assessable unit using the methodology specified in the *OMB Guidelines for the Evaluation and Improvement of the Reporting on Internal Control Systems in the Federal Government*. All reviews should produce written material documenting what was found and action taken.

12. Management Control Program—The formal effort of an organization to ensure that MC systems are working effectively through assignment of responsibilities at the policy level, issuance and implementation of guidance, conduct of management control evaluations, and reporting to senior management.

13. Management Control Plan—A written plan (updated annually) that details the inventory of assessable units throughout the organization along with the progress toward accomplishment of scheduled management control evaluations. It need not be lengthy and any format may be used so long as it conveys, with a reasonable certainty, the completion of required program activity.

14. Managers with Significant MC Responsibilities. This includes top-level managers, down through operational managers of all programs and activities, in which funds, property, and other assets must be safeguarded against fraud, waste, or mismanagement; and in which resources must be managed efficiently and effectively.

15. Material Weakness—A determination by management that a condition exists (of sufficient importance to be reported to the next higher level of command) in which the designated control procedures or the degree of operational compliance does not provide reasonable assurance that the objectives of the MC program are being accomplished. Such weakness significantly impairs the fulfillment of a DOD Component's mission; deprives the public of needed services; violates statutory or regulatory requirements; significantly weakens safeguards against fraud, waste, or mismanagement of funds, property, or other assets; or results in conflict of interest.

16. Reasonable Assurance—A judgment, based upon an evaluation of all available information that the organization's systems of management control are operating in a manner that achieves the objectives of the FMFIA.

17. Risk Assessment. A documented review by management of a DOD Component that rates an assessable unit's susceptibility to fraud, waste, or mismanagement. Risk assessments are of the following two types:

17.1. Alternative Risk Assessment. Assessments based on management's knowledge of the area or unit and how it functions or operates, its built-in controls, related information obtained from DOD Component reporting systems, previous risk assessments, or information obtained from other sources that require documentation (as defined in definition 4). This procedure may be tailored to meet the DOD Component's needs.

17.2. Vulnerability Assessments. Assessments that are provided in the OMB Guidelines for the Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government.

18. Statement of Assurance. The document that the Commander must submit to the Secretary of Defense indicating whether or not the MC Systems meet the program standards, goals, and objectives, and is effectively implemented.

19. Testing. Procedures to determine through observation, examination, verification, sampling, or other procedures whether management control systems are working in accordance with management's MC objectives and the *GAO Standards for Internal Control in the Federal Government*.

20. Vital Management Controls—Those management controls most important to the accomplishment of the mission, and for which noncompliance would require disclosure to more senior management.

STANDARDS FOR MANAGEMENT CONTROL

1. General Standards:

1.1. Reasonable Assurance. Control systems shall provide reasonable, but not absolute, assurance that the objectives of the systems shall be accomplished. (This standard recognizes that the cost of a control should not exceed its benefits, and that the benefits consist of reductions in the risks of failing to achieve the stated control objectives.)

1.2. Supportive Attitude. Managers and employees shall maintain and demonstrate a positive and supportive attitude toward controls at all times.

1.3. Competent Personnel. Managers and employees shall have personal and professional integrity and shall maintain a level of competence that allows them to accomplish their assigned duties and to understand the importance of developing and implementing good controls.

1.4. Control Objectives. Control objectives shall be identified or developed for each activity and shall be logical, applicable, and as complete as possible.

1.5. Control Techniques. Control techniques shall be effective and efficient in accomplishing their control objectives.

2. Specific Standards:

2.1. Documentation. Control systems and all transactions and other significant events shall be documented clearly, and the documentation shall be readily available for examination.

2.2. Recording of Transactions and Events. Transactions and other significant events shall be recorded and classified promptly.

2.3. Execution of Transactions and Events. Transactions and other significant events shall be authorized and executed only by persons acting within the scope of their authority.

2.4. Separation of Duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions shall be separated among individuals. (MC depends largely on eliminating opportunities to conceal errors or irregularities. Work shall be assigned so that no one individual controls all phases of an activity or transaction. This avoids creating a situation in which errors or irregularities might go undetected.)

2.5. Supervision. Qualified and continuous supervision shall be provided to ensure that control objectives are achieved.

2.6. Access to and Accountability for Resources. Access to resources and records shall be limited to authorized individuals, and accountability for the custody and use of resources shall be assigned and maintained. Periodic comparison shall be made between the resources and the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset.

3. Audit Resolution Standard. Prompt Resolution of Audit Findings. Managers shall do the following:

3.1. Promptly evaluate findings and recommendations reported by auditors.

3.2. Determine proper actions in response to audit findings and recommendations.

3.3. Complete, within established timeframes, all actions that correct or otherwise resolve the matters brought to management's attention.

GUIDANCE IN APPLYING THE DEFINITION OF MATERIAL WEAKNESS

1. A material weakness must satisfy two conditions:

1.1. It must be a condition in which management controls, or compliance with them, do not provide reasonable assurance that the objectives of the MC are being met.

1.2. It must be a condition that requires the attention of the next higher level of management. Whether a weakness is material enough to warrant reporting to a higher level than that at which it was discovered is a management judgment. Fundamentally, managers should consider reporting a weakness to the next higher level if the participation of management at a higher level is required to help resolve the problem or, although the problem can be resolved at the lower level, it is serious enough in the judgment of the manager with the control weakness to bring the attention of higher level management as a point of information. The additional yardsticks provided in Sections 2 and 3 are provided to help managers understand the concept of materiality and are not intended to be determinants of materiality.

2. Discussions of material weakness definition in Section 1:

2.1. A material weakness in DOD's system of management controls may be due to a lack of an applicable control or, more frequently, inadequate compliance with existing controls. These controls deal with all program and administrative functions; they are not limited to financial or accounting matters.

2.2. In addition to the basic characteristics of a material weakness described in Sections 1 and 2, the final determination to categorize a management control weakness as material results from management judgment about the relative impact of the weakness. For example, scoring each of the following considerations as "significant" or "insignificant" might help a manager in determining whether the absence of or noncompliance with a control is a material weakness.

2.2.1. Actual or potential loss of resources.

2.2.2. Sensitivity of the resources involved.

2.2.3. Magnitude of funds, property, or other resources involved.

2.2.4. Frequency of actual and/or potential loss.

2.2.5. Current or probable media interest (adverse publicity).

2.2.6. Current or probable Congressional interest (adverse publicity).

2.2.7. Unreliable information causing unsound management decisions.

2.2.8. Diminished credibility or reputation of management.

2.2.9. Impaired fulfillment of essential mission.

2.2.10. Violation of statutory or regulatory requirements.

2.2.11. Impact on information security.

2.2.12. Deprived the public of needed Government services.

2.3. Monetary value impact generally shall be considered material when the weakness has caused or might cause loss of control over a significant amount of resources for which an organization is responsible (including money, personnel, equipment, etc.).

2.4. Open findings on management controls from any source and agreed to by the manager are candidates for material weakness at the applicable level, until all corrective actions are complete.

3. Determining a Material Weakness: Such a determination is a management judgment of whether a weakness meets the criteria discussed in paragraphs 1 and 2. A higher or lower dollar threshold may be applicable, depending on the nature and characteristics of the weakness. Some examples of material weakness at two levels of the DOD (the dollar thresholds shown are examples only) are as follows:

3.1. At the Component Level. Consider a threshold of \$250,000 for monetary problems. For smaller defense agencies, lesser threshold amounts might be applicable. An example is poor control over property on hand or over property turned in as excess. This assumes that the problem is pervasive within the DOD Component and represents a significant dollar loss.

3.2. At the DOD Level. For the DOD, problems should appear in more than one DOD Component, amount to \$2 million or more, or be seen as nationwide or international in scope. Depending on the potential effect of the problem, a narrower or apparently less costly problem might be of concern to the Secretary of Defense. An excellent example of a DOD level material weakness is the lack of competition in many DOD procurements.

MANAGEMENT CONTROL REPORTING CATEGORIES

- 1. Research, Development, Test, and Evaluation.** Covers the basic project definition, approval, and transition from basic research through development, test, and evaluation as well as all DOD contractor operations involved in accomplishing the project work. Excludes the support functions covered in separate reporting categories such as Procurement and Contract Administration.
- 2. Major Systems Acquisition.** Covers items designated as major systems and that are subject to the procedures of the Defense Acquisition Board (DAB), the Military Services' acquisition review councils, or the Selected Acquisition Reporting System. DOD Directive 5000.1, Defense Acquisition, may be helpful when evaluating a weakness for inclusion in this category.
- 3. Procurement.** Covers decisions to purchase items and services together with certain actions to award and amend contracts; e.g., contractual provisions, type of contract, invitation to bid, independent government cost estimate, technical specifications, evaluation and selection process, pricing, and reporting.
- 4. Contract Administration.** Covers fulfillment of contractual requirements including performance and delivery, quality control and testing to meet specifications, performance acceptance, billing and payment controls, justification for contractual amendments, and actions to protect the best interests of the government.
- 5. Force Readiness.** Includes the operational readiness capability of combat and combat support (both Active and Reserve) forces, based on analyses of the use of resources to attain required combat capability or readiness levels.
- 6. Manufacturing, Maintenance, and Repair.** Covers the management and operation of in-house and contractor-operated facilities performing maintenance and repair of, and/or installation of modifications to materiel, equipment, and supplies. Includes depot and arsenal-type facilities as well as intermediate and unit levels of military organizations.
- 7. Supply Operations.** Encompasses the supply operations at the wholesale (depot and inventory control point) level from the initial determination of material requirements through receipt, storage, issue reporting, and inventory control (excluding the procurement of materials and supplies). Also covers all supply operations at retail (customer) level, including the accountability and control for supplies and equipment of all commodities in the supply accounts of all units and organizations (excluding the procurement of material, equipment, and supplies).
- 8. Property Management.** Covers construction, rehabilitation, modernization, expansion, improvement, management, and control over real and installed property, and facilities (both military and civil works construction). Includes all phases of property life-

cycle management from determination of need through disposition. Also covers disposal actions for all materiel, equipment, and supplies, including the Defense Reutilization and Marketing System.

9. Communications, Intelligence, or Security. Covers the plans, programs, operations, systems, and management activities for accomplishing the communications and intelligence missions. Includes safeguarding classified resources but not peripheral assets and support functions covered by other reporting categories. Also covers the DOD programs for protection of classified information.

10. Information Technology. Covers the design, development, testing, approval, deployment, use, and security of electronic data processing systems, computers, and other technologies for processing management information. Includes requirements justification for equipment and software.

11. Personnel or Organization Management. Covers authorizations, recruitment, training, assignment, use, development, and management of military and civilian personnel of the Department of Defense. Also includes the operations of headquarters organizations. Contract personnel are not covered by this category.

12. Comptroller and/or Resource Management. Covers the budget process, finance and accounting, cost analysis, productivity and management improvement, and the general allocation and continuing evaluation of available resources to accomplish mission objectives. Includes pay and allowances for all DOD personnel and all financial management areas not covered by other reporting categories, including those in connection with OMB Circular A-76.

13. Support Services. Includes all support services functions financed from appropriated funds not covered by the other reporting categories, such as health care, veterinary care, legal and public affairs services. All non-appropriated fund activities are also covered by this category.

14. Security Assistance. Covers management of DOD Foreign Military Sales, Grant Aid, and International Military Education and Training Programs.

15. Other (Primarily Transportation). All functional responsibilities not contained in the previously noted categories, including management and use of land, sea, and air transportation for movement of personnel, materiel, supplies, and equipment using both military and civilian sources.